



Hot Off The Press:
**KPMG Agribusiness
 Agenda 2017**

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

19 April 2018

Organisations referenced in this week's Field Notes include:

B Lab	PGG Wrightson
Beef + Lamb New Zealand	Sealord
Cawthron Institute Freshwater Group	Sky TV
Comvita	Soylent
Crown Irrigation Investments	Spark
Dairy Goat Co-operative	Statistics New Zealand
Danone North America	Synlait Milk
Entomo Farms	The A2 Milk Company
Farming for the Future	TVNZ
Federated Farmers	University of Otago
Fonterra Co-operative Group	Veolia
Icebreaker	VF Corporation
Impossible Foods	White Castle
Irrigation New Zealand	Wine Australia
Land, Air, Water Aotearoa	Yujan Corporation
Landcorp Farming	
Maple Leaf Foods Inc	
Meat Industry Association	
Ministry for Primary Industries	
National Party	
NZ Merino Company	
Otago Regional Council	

This week's headlines

Apiculture	Comvita signals a takeover could be in the wind [16 April/NZ Herald]
Biosecurity	MPI reassures farmers it is working as fast as possible to process cattle disease compo claims [16 April/NZ Farmer]
Dairy	A2 Milk Co signs exclusive deal in South Korea [16 April/NZ Herald]
Economics and trade	US position on TPP unclear, says Govt [13 April/Otago Daily Times]
Farmers and producers	Deer milk industry in the pipeline [12 April/Dairy News]

Rural supplies

Farmers facing toxic swede harvest [16 April/NZ Herald] Farmers in Southland and Otago have found themselves growing crops of potentially toxic swede, following a human error by PGG Wrightson, a seed wholesaler, which meant more than 500 farmers were inadvertently growing the same variety of swedes that were linked to the deaths of hundreds of dairy cows in 2014. Farmers are working on mitigating the possible issues of using the crop to feed animals this winter. Winton farmer, Phil Garaway, said he had reduced his nitrogen input on the swedes so they were not growing too much crop. He added that they were going to graze the crop at the start of winter rather than later on like they wanted to. He noted they had gone up about 30 bales a hectare to increase the baleage percentage to mitigate factors around using the swede. PGG Wrightson General Manager, David Green, told farmer's that compensation would be provided.

Dairy

Fonterra does U-turn on invoice payments to tradies [16 April/NZ Herald] Fonterra is going to reverse their delayed payment policy that caused financial difficulties for many small suppliers and it will return to paying its small trades and services suppliers on normal business terms again. Small Business Minister, Stuart Nash, congratulated Fonterra on its policy change. He said he had personally raised the issue with Fonterra and revealed they had adopted a policy where supplies whose contracts were worth up to \$300,000 a year would be paid on the 20th of the following month. Morrinsville Chamber of Commerce Chairman, Nigel McWilliam, added the policy had been very tough on provincial areas and had impacted cash flow. He noted that Fonterra had felt the burden of cheaper service and materials as suppliers tried to adapt to the income squeeze. A Fonterra spokesperson said that teams had been working with smaller vendors on a one-to-one bases to move them to shorter payment terms.

A2 Milk Co signs exclusive deal in South Korea [16 April/NZ Herald] The A2 Milk Company ('a2') has signed a distribution deal with Yujan Corp to promote and distribute a2 branded products in South Korea. The products will be sourced from New Zealand and Australia, with nutritional products produced by Synlait Milk. The company's shares rose 16 cents. a2 Managing Director, Geoff Babidge, said that Yujan Corporation was a long established, highly credentialed and principled Korean business. He added they had similar values and ambitions. Separately, a2 Milk recently announced that it was about to introduce a new powder product blended with New Zealand sourced Manuka honey.

Rural communities

Spark/TVNZ rugby deal 'kick in the guts' for rural NZ [16 April/NZ Herald] Spark and TVNZ have secured the rights to broadcast the Rugby World Cup next year. The deal was described as a kick in the guts for rural New Zealand as the rights were previously held by Sky TV meaning anyone with a Sky box would have access. The event will be broadcast across Spark's broadband network but some remote areas would have limited internet access. Rural Canterbury sheep farmer, Murray Smith, said his internet was slow and incapable of streaming and it might leave him unable to watch the games. Spark Managing Director, Simon Moutter, said the company would do its best to ensure everyone had access to the event. He added that they would find a way to make it accessible. Mr Smith thought it would be particularly difficult for the elderly as many would rather just watch it on TV. Spark had 18 months to prepare for the event and Mr Moutter was confident they would deliver.

Apiculture

Comvita signals a takeover could be in the wind [16 April/NZ Herald] Comvita foreshadowed that it may be the subject of a takeover offer from an unidentified third party. It emphasised the possible acquisition was an incomplete transaction proposal currently and that there was no certainty that any offer would be forthcoming. The potential takeover was disclosed alongside a downgrade to its earnings forecast. A further update is expected by mid-May and the due diligence was moving towards a conclusion, according to a statement by Comvita. Comvita warned that its earnings are expected to be between \$8 and \$11 million which was down from an earlier forecast of \$17.1 million due to adverse weather. Comvita Chief Executive, Scott Coulter, said they had completed 80 percent of the honey extraction for the season. He noted the poor harvest had a direct impact on its apiary business profitability for the current financial year.

Water

New Zealand river water quality high fresh data shows, but still room for improvement [16 April/The Country] River water quality around New Zealand has improved over the last decade according to recently released data. The National Water Quality Trends data released by Land, Air, Water Aotearoa gives data on 1500 freshwater sites that are regularly monitored for water quality. Cawthron Institute Freshwater Group Ecologist, Dr Roger Young, said the overall picture was encouraging and that looking back, more sites showed evidence of improving water quality rather than degrading. He hoped it could represent a turning point in New Zealand's river health story. The report noted that there were improving trends in total phosphorus, dissolved reactive phosphorus, E.coli, ammonia and nitrogen and water clarity. The LAWA website provides information about river health of rivers in sixteen regions across the country. Dr Young added that although the results were positive, water quality is only one indicator of river health and more could still be done.

National takes swipe at government over axing irrigation schemes [12 April/Otago Daily Times] The National Party were disappointed with the Minister of Agriculture, Damien O'Connor, for not consulting properly before cancelling funding for several large proposed irrigation schemes. The government said big private irrigation schemes had to be self-financing. National's Agricultural Spokesman, Nathan Guy, said Mr O'Connor did not consult Crown Irrigation Investments before the decision was made. Mr O'Connor replied saying he had met with them prior to becoming Minister of Agriculture, and had met with officials from Irrigation New Zealand since becoming Minister. Irrigation New Zealand Chief Executive, Andrew Curtis, said that he had not yet met the Minister and was looking forward to doing so. Crown Irrigation Head, Murray Gribbon, confirmed he had no contact with the Minister. Mr Guy said it was a kick in the guts for rural New Zealand and that farmers, growers and councils had been investing a huge amount to get the irrigation systems running,

Fishing

New Sealord fishing vessel Tokatu soon head for Nelson [16 April/Stuff] Sealord's new \$70m fishing vehicle is nearing completion and has been given the name Tokatu. This relates the phrase he tokatu moana which means a rock that withstands the ravages of the sea. A Sealord spokeswoman said that it was a strong name for a ship built with world class technology designed to fish all species. It will be Sealord's most advanced, efficient, versatile and sustainable vessel. A delivery crew will travel to Norway in preparation for Tokatu's maiden voyage to New Zealand. It was expected to arrive in early June. The ship was first announced by Sealord in August 2016.

Biosecurity

MPI reassures farmers it is working as fast as possible to process cattle disease compo claims [16 April/NZ Farmer] Thirty properties have tested positive for Mycoplasma bovis and last month the Ministry for Primary Industries decided to cull 22,000 cattle from them. The MPI reassured those farms that they were moving as fast as possible to process compensation claims. MPI Director of Response, Geoff Gwyn, said they were yet to receive compensation claims however were aware some farmers were nervous about the time-frames. They had been dealing with claims throughout the response. They have paid out around \$2.5 million in compensation so far with a further \$1.5 expected to be paid out within the next few weeks. Mr Gwyn added that they were increasing staffing in their compensation team to process claims when the claims for the 22,000 culled animals came through. He reassured farmers that they were doing everything they could to help get them back on their feet as soon as possible.

Rabbit virus taking hold, says ORC [16 April/Rural Life] Tests from samples in Otago indicated deaths have been occurring since the release of the RHDV1 K5 virus. The Otago Regional Council said patience was paying off for landowners who were waiting for the virus to take hold. ORC Director of Environmental Monitoring and Operations, Scott MacLean, said the news was good however the virus would not be widespread at this stage. If a virus like this is left to spread naturally like this, you would see it peak about four weeks after release. He noted we were close to this timeframe now. He said the virus would spread for 12-14 weeks after release. The virus is spread from rabbit-to-rabbit contact and also through flies. Mr MacLean emphasised that human intervention could potentially result in rabbits becoming immune to the virus, so patience was needed. Farmers who notice dead rabbits on their properties should contact a biosecurity officer so samples can be taken.

Goat

Dairy Goat Co-operative appoints David Hemara as new chief executive [16 April/NZ Farmer] David Hemara has been appointed as the new Chief Executive of the Dairy Goat Co-operative after Tony Giles stepped down. Mr Hemara said his focus would be to maintain the push for quality, innovation and export market development. Before stepping down, Mr Giles added that DGC's key areas of growth were in Europe and this would underpin future growth. He also noted China was the company's largest market. Mr Hemara noted that goat milk was tracking to budget this season. It sources its goat milk from its 72 shareholders and operates its entire manufacturing processes for milk formula for infants and children. He said it was an evolving business with no need for radical change. He emphasised that their focus would be on identifying the right markets and finding the right partners in those markets.

Environment and emissions

Farming for climate change to rise on priority list of farmers [16 April/NZ Farmer] Greater Wellington Regional Council's Climate Scientist, Alex Pezza, said Wairarapa farmers needed to change their systems to cope with climate warming at a recent seminar in the Wairarapa. KPMG Farm Enterprise Specialist, Julia Jones, added that climate change was not only an inconvenient disruption, but also an opportunity. She challenged Wairarapa land owners to adapt in a smart way that took advantage of the opportunities. Farming for the Future Leader, Heather Atkinson, noted rural lenders were recognising that failure to take action on climate change would affect future cash flows. Ms Atkinson said sustainable agriculture and economic gains could happen at the same time. The seminar brought farmers, farm advisors, industry specialists, students, and agribusiness consultants together to share ideas.

Horticulture

Wet weather pushes vege prices up [16 April/Otago Daily Times] Food prices in New Zealand rose 1 percent in March from February. Wet weather caused vegetable prices to rise 11 percent. After adjusting for typical changes, vegetable prices increased 9.5 percent due to rises in tomato, lettuce, cauliflower, cabbage and broccoli prices according to Statistics New Zealand. Statistics New Zealand Consumer Prices Manager, Matthew Haigh, said vegetable crops were affected by storms in recent weeks. He noted that in February rising prices were due to a combination of humid weather and Cyclone Gita. In March, tomatoes rose more than 60 percent, lettuce increased by 20 percent, cabbage was up 50 percent and broccoli rose by 20 percent. Apple prices fell 16 percent in March. Overall food prices were 1.4 percent higher in March this year than last year according to Statistics New Zealand. The food price index accounts for about 19 percent of the consumers' price index.

Economics and trade

US position on TPP unclear, says Govt [13 April/Otago Daily Times] According to Trade Minister, David Parker, it was still unclear whether the U.S. was committed to returning to the Trans Pacific Partnership. U.S. President, Donald Trump, told officials to look at signing the partnership. During his campaign he was against the deal calling it a disaster. He saw it as a way to balance China's influence in the region. Mr Parker added there had been no official confirmation. Prime Minister, Jacinda Ardern, noted that it would trigger a whole new process if the U.S did genuinely want to re-join. In the revised CPTPP, there are changes such as new provisions to narrow the ability of foreign investors to sue governments. National Party Trade Spokesman, Todd McClay, said the U.S' change in direction was welcome and they should engage with officials as quickly as possible. He noted that none of the provisions were significant enough to prevent NZ from seeking access to North America.

Poultry

Warning labels for fresh chicken needed, as people not preparing it properly [17 April/NZ Herald] New Zealanders wanted brightly coloured warning labels on fresh chicken to warn them of the risks of the country's largest food safety issue according to new research. A study by the University of Otago found only 15 percent of consumers were aware that most fresh chicken meat was contaminated with campylobacter. University of Otago Infectious Diseases Research Professor, Michael Baker, said that the study identified gaps in campylobacteriosis prevention in New Zealand. He emphasised that fresh chicken was our number one food safety problem. Medical student and researcher, Philip Allan, said New Zealand had one of the highest rates of campylobacteriosis in the world and at least half was attributable to contaminated chicken. He noted that most people thought warning labels containing safety information would be the most effective method of communication.

Red meat

Grant to help lead sector's Brexit response [17 April/Otago Daily Times] Southland Agribusiness Leader, Jeff Grant, was appointed to support the red meat sector's response to Brexit. The appointment was made by Beef + Lamb New Zealand and the Meat Industry Association. Beef + Lamb New Zealand Chairman, Andrew Morrison, said that Jeff is highly experienced and had been involved in the red meat sector for over 25 years. He brought expertise and strategic skill that would be crucial over the next two years. Mr Morrison added that Jeff was a sheep, beef and deer farmer himself so he understood the importance of trade to the sector. Meat Industry Association Chairman, John Loughlin, noted Brexit was one of the biggest challenges to face the sector and it was crucial New Zealand wouldn't be worse off as a result of the change.

Wool

Merino concerns [17 April/Rural News] According to Federated Farmers High Country Industry Group Chairperson, Simon Williamson, the sale of Icebreaker to VF Corporation could leave the New Zealand merino production industry with too many eggs in one basket. Mr Williamson said the companies add up to a big chunk of where NZ Merino Company wool goes and that we used to sell more of our wool to Europe. NZ Merino Company Chief Executive, John Brakenridge, noted that they work with over 50 different local and international brands to deliver value back to growers. He added that Federated Farmers would be better suited supporting businesses like NZ Merino in their endeavours to promote natural wool fibre and the building of markets. Mr Williamson thought there was a lot of stuff to go under the bridge as VF Corporation now have two brands that up until now were competing with one another. He said he believes that there are challenges ahead for the merino industry.

Farmers and producers

Deer milk industry in the pipeline [12 April/Dairy News] Landcorp is working on creating a deer milk industry. Landcorp General Manager of Dairy Operations, Mark Julian, said it was early days and that it was different to the sheep milk industry which had products on the market. He added the project was mainly research and development and that they were looking at selective milk powder and skin care products for the global market. Landcorp was not looking at wholesale changes to its business model. Mr Julian noted that Landcorp wanted to move from a pasture farming company to a food and farming company. He said its core business would always be farming and traditional sales would drive revenue for the immediate future. Recent success of their sheep milk joint venture was a boost to their belief that differentiation and unique offerings were areas to target.

International

Australian wine records tumble as exports to China crack lucrative \$1 billion mark [16 April/ABC News] Statistics show the Australian wine industry's exports are the highest they have been in a decade. This is due to China reinforcing itself as a boom market for the Australian product with a 51 percent yearly growth in exports to the country. According to data from Wine Australia, there was a 16 percent spike in overall value of Australian wine exports. Wine Australia Chief Executive, Andreas Clark, said it was no mean feat for a once struggling industry and that the China story was impressive. The success was put down to a trend where worldwide consumers were open to spending more for a better drop. He added that they may be drinking a bit less, but what they are drinking they want to enjoy a quality experience. Assistant Minister for Agriculture and Water Resources, Anne Ruston, added that with tariffs into China likely to be removed there was space for further growth.

Cricket Muffins, Anyone? Canadian Food Giant Bets on Insects [12 April/Bloomberg] Maple Leaf Foods Inc is investing in a company that saw crickets and whole-roasted insects as a more sustainable alternative to meat. Maple Leaf Foods have provided series A funding to Entomo Farms who will use the cash to expand production of cricket and mealworm ingredients. Alternative forms of protein comprised a fast-evolving sector. Crickets contain essential amino acids and are high in nutrients as well as using less land, water and feed than traditional meat farming. Maple Leaf was among several other major companies investing in the area. Maple Leaf Chief Executive Officer, Michael McCain, said their minority venture investment in Entomo was consistent with their vision to be the most sustainable protein company on earth.

DanoneWave rebrands to Danone North America and becomes largest company to receive B-Corp Certification [12 April/Dairy Reporter] After a year as DanoneWave, the company has rebranded to Danone North America and become the largest Certified B Corporation in the world. The certification is managed by B Lab who promotes the development of innovative corporate structures. There are over 2,400 Certified B Corporations worldwide. Companies are required to complete a B Impact Assessment survey and earn an audited minimum score of 80 out of 200 with the goal of continuous improvement. Danone North America had the goal of having zero net carbon emissions by 2020. Being a part of B Corp means sustainability progress is publically tracked on the organisation's website and broken down into different categories. The company will put most of its first environmental efforts towards advancing regenerative agriculture practices and soil health.

Soylent meal-replacement drinks to be sold at Walmart [11 April/Food Dive] Soylent meal replacement products will be sold at Walmart stores from this month. They will stock products in Cacao, Vanilla Latte and Coffiest varieties. Soylent is currently being sold in over 2,500 7-Eleven stores, was the number one grocery product on Amazon in January and continued to grow customer numbers on its direct to consumer e-commerce platform. Soylent's Vice President of Sales, Melody Conner, said it had the opportunity to build presence offline with a leading force in the grocery sector. She added that they were committed to making the experience as robust as their online business. Soylent has reinvented itself in bottle form and was slowly being rolled out to retailers. Each bottle contains 20 percent of daily nutritional requirements, as well as 400 calories and 20 grams of protein. This was the first major expansion of Soylent under new Chief Executive Officer, Bryan Crowley.

Field Notes

Weekly news update from the KPMG Agribusiness Network – 19 April 2018

White Castle goes highbrow? Now famous slider can come with fake beef [12 April/CNBC] Plant-based meat will be introduced into the White Castle slider. The burger uses a patty made by Impossible Foods who engineer plant-based ingredients that taste like beef. It will be named the Impossible Slider. White Castle CEO, Lisa Ingram, said plant based proteins were growing and that they felt it was a good opportunity that would appeal to a broad range of customers. Impossible Foods' fake meat was served in more upscale chains until now. Plant based meat alternatives were growing at a rate of around 11 percent a year according to Acosta. Senior Food and Drink Analyst at Mintel, Billy Roberts, said interest in meat alternatives seemed to be driven by consumers at large rather than solely those looking for vegetarian lifestyles. Impossible Foods Chief Operating Officer, David Lee, said their business was a growth business and that demand would increase.

Veolia promotes circular economy with launch of organic marketplace [16 April/Food Navigator] Veolia hoped that the digital revolution would bring a potential 100 million tonnes of organic resources into the economy through the launch of BioTrading, its new organic trading platform. It said it aimed to make it easier for manufacturers to buy and sell products as well as convert waste streams into cash flow by bringing them into the circular economy. Veolia added that BioTrading was the first digital marketplace to connect the organic value chain and hoped it would save buyers time and money. Their ambition is to drive to meet the sector's organic resource needs by bringing underutilised by-products back onto the supply chain. Veolia Organics and Technology Director, Raquel Carrasco, said it was win-win in terms of financial and environmental benefits. She noted that a wide range of resources would be made available including food waste, food for redistribution, industrial organic by-products and many other resources.

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Field Notes presents a summary of some of the media comment on the Agribusiness sector in the last week. The views expressed do not necessarily represent the views of KPMG but are summaries of the articles published.

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